

UNITED STATES DISTRICT COURT
WESTERN DISTRICT OF WASHINGTON
AT SEATTLE

PROTEOTECH, INC., a Washington
Corporation,

Plaintiff,

v.

UNICITY INTERNATIONAL, INC., a Utah
corporation, et al.,

Defendants.

Case No. C06-1297Z

ORDER

THIS MATTER comes before the Court on Rexall Sundown, Inc.'s motion to dismiss the three causes of action asserted against it by ProteoTech, Inc. Having reviewed all papers filed in support of and in opposition to the motion, the Court does hereby ORDER:

- (1) Rexall Sundown, Inc.'s motion to dismiss, docket no. 66, is GRANTED IN PART and DENIED IN PART;
- (2) ProteoTech, Inc.'s claim for indemnification (Count VIII) is DISMISSED with prejudice, ProteoTech, Inc.'s patent infringement claim (Count II) is LIMITED to United States Patent No. 6,264,994, and in all other respects, Rexall Sundown, Inc.'s motion is DENIED; and
- (3) The Clerk is directed to send a copy of this Order to all counsel of record.

1 **Background**

2 In June 1997, the University of Washington granted an exclusive licence to ProteoTech,
3 Inc. (“ProteoTech”) for technology that subsequently ripened into United States Patent
4 No. 6,264,994 (issued July 24, 2001) (“the ’994 patent”) and United States Patent No. 6,939,570
5 (issued September 6, 2005) (“the ’570 patent”). Amended Complaint at ¶¶ 12, 13, & 15 (docket
6 no. 51) (copy attached as Exh. A to Motion to Dismiss (docket no. 66)). In September 1998,
7 ProteoTech granted an exclusive, limited field of use, licence to Rexall Sundown, Inc.
8 (“Rexall”) with respect to the technology protected by both patents. *Id.* at ¶ 18; *see also*
9 Response at 3 n.2 (docket no. 70). Through various corporate acquisitions and mergers, Rexall
10 Showcase, Inc. (a subsidiary of Rexall) was combined with another company (Enrich
11 International, Inc.) and then purchased by an entity that eventually took the name Unicity
12 International, Inc. (“Unicity”). Amended Complaint at ¶ 20. In July 2003, Rexall granted a
13 non-exclusive, transferable sublicense to Unicity’s predecessor. *Id.* at ¶ 26; *see* Technology
14 Sublicense Agreement at ¶ 2.1, Exh. C to Motion to Dismiss (docket no. 66). Unicity
15 manufactures and sells a product under the name CognoBlend Herbal Supplement. Amended
16 Complaint at ¶ 22. Marketing materials state that “CognoBlend is patented under” the ’994
17 patent; the label indicates that “CognoBlend with PTI-00703 is under U.S. patent pending.” *Id.*
18 at ¶ 24. “PTI-00703” is a registered trademark, in which ProteoTech retains all rights despite its
19 lack of use. *Id.* at ¶¶ 16 & 17. ProteoTech asserts that Rexall had no authority to sublicense the
20 technology at issue to Unicity, and it has alleged against Rexall the following causes of action:
21 patent infringement, contributory trademark infringement, and indemnity. *Id.* at Counts II, IV,
22 and VIII. Rexall has moved to dismiss all three of ProteoTech’s claims pursuant to
23 Rule 12(b)(6); Rexall has not moved for relief as to the third-party complaint brought against it
24 by Unicity.

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2 **Discussion**

3 **A. Standard for Motion to Dismiss**

4 Although a complaint challenged by a Rule 12(b)(6) motion to dismiss need not provide
5 detailed factual allegations, it must offer “more than labels and conclusions” and contain more
6 than a “formulaic recitation of the elements of a cause of action.” *Bell Atlantic Corp. v.*
7 *Twombly*, 127 S. Ct. 1955, 1964-65 (2007). The complaint must indicate more than mere
8 speculation of a right to relief. *Id.* at 1965. When a complaint fails to adequately state a claim,
9 such deficiency should be “exposed at the point of minimum expenditure of time and money by
10 the parties and the court.” *Id.* at 1966. A complaint may be lacking for one of two reasons:
11 (i) absence of a cognizable legal theory, or (ii) insufficient facts under a cognizable legal claim.
12 *Robertson v. Dean Witter Reynolds, Inc.*, 749 F.2d 530, 534 (9th Cir. 1984). In ruling on a
13 motion to dismiss, the Court must assume the truth of the plaintiff’s allegations and draw all
14 reasonable inferences in the plaintiff’s favor. *Usher v. City of Los Angeles*, 828 F.2d 556, 561
15 (9th Cir. 1987). The question for the Court is whether the facts in the complaint sufficiently
16 state a “plausible” ground for relief. *Twombly*, 127 S. Ct. at 1974. If the Court considers
17 matters outside the complaint, it must convert the motion into one for summary judgment. Fed.
18 R. Civ. P. 12(d). If the Court dismisses the complaint or portions thereof, it must consider
19 whether to grant leave to amend. *Lopez v. Smith*, 203 F.3d 1122, 1130 (9th Cir. 2000).

20 **B. Patent Infringement**

21 Rexall contends that “as a matter of law, the mere act of licensing does not constitute
22 inducement of infringement.” Motion to Dismiss at 6 (docket no. 66). For support, Rexall cites
23 two cases: *Hewlett-Packard Co. v. Bausch & Lomb Inc.*, 909 F.2d 1464 (Fed. Cir. 1990), and
24 *TorPharm Inc. v. Novopharm Ltd.*, 48 U.S.P.Q.2d 1471 (E.D.N.C. 1998). Neither case stands
25 for the broad proposition stated.

26 In *Hewlett-Packard*, the plaintiff and the defendant each held patents for similar

1 technology; Hewlett-Packard Company (“HP”) was the assignee of the “LaBarre patent,” while
2 Bausch & Lomb Incorporated (“B&L”) was the assignee of the “Yeiser patent.” 909 F.2d at
3 1465-66. Both the LaBarre patent and the Yeiser patent described the mechanism for feeding
4 paper through an X-Y plotter. *Id.* at 1466. In late 1982 or early 1983, B&L began selling,
5 through its Houston Instruments division, a form of X-Y plotter that used the technology
6 protected by the LaBarre patent. *Id.* at 1467. In September 1985, B&L sold the Houston
7 Instruments division to Ametek, Inc. (“Ametek”) for \$43 million and concurrently executed an
8 agreement pursuant to which it granted to Ametek a license under the Yeiser patent. *Id.* HP
9 sued B&L for direct infringement during the period preceding the sale to Ametek and for
10 inducement of infringement for the subsequent time frame. *Id.* In its defense, B&L challenged
11 the validity of the LaBarre patent in light of the earlier Yeiser patent and denied that its sale of
12 the Houston Instruments division and related activities constituted inducement of infringement.
13 *Id.* The Federal Circuit affirmed the district court’s ruling that the LaBarre patent was valid and
14 that B&L was not liable for infringement subsequent to the sale of the Houston Instruments
15 division. *Id.* at 1468-70. As to the latter issue, the Federal Circuit clarified that an element of
16 infringement by inducement (a form of direct infringement, also known as “active inducement”)
17 is “proof of actual intent to cause the acts which constitute infringement.” *Id.* at 1469. The
18 Federal Circuit then examined the “totality of events” and concluded that B&L “was merely
19 interested in divesting itself of Houston Instruments at the highest possible price.” *Id.* It found
20 that the grant of a license from B&L to Ametek under the Yeiser patent was not probative of any
21 intent to induce infringement; rather the license “merely freed Ametek from whatever bar the
22 Yeiser patent would have been.” *Id.* at 1470. The license could not and did not purport to
23 insulate Ametek from the effect of other patents, including the LaBarre patent. *See id.*

24 The *Hewlett-Packard* case is both distinguishable and not accurately interpreted by
25 Rexall. In *Hewlett-Packard*, the license granted by B&L to Ametek involved a patent different
26 from the one HP accused B&L of infringing or inducing Ametek to infringe. No allegation was

1 made in that case that B&L lacked the authority or right to grant Ametek a license in the Yeiser
2 patent. The license under the Yeiser patent was simply not meaningful evidence concerning
3 B&L's intent to induce Ametek to infringe the LaBarre patent. In contrast, here, Rexall has
4 granted a sublicense to Unicity concerning the same patent ProteoTech alleges that both Rexall
5 and Unicity have infringed. ProteoTech challenges Rexall's ability to grant such sublicense, and
6 the sublicense therefore has some relevance concerning Rexall's intent, at least with regard to
7 the '994 patent, which predates the sublicense. Moreover, the Hewlett-Packard opinion does
8 not suggest that licensing alone could never be adequate evidence of the requisite intent; rather,
9 the Federal Circuit examined all of the evidence in that case and concluded that B&L's intent
10 was not to infringe HP's patent, but rather to get rid of Houston Instruments "lock, stock, and
11 barrel." Id. at 1469, 1470. Here, however, the Court cannot conclude with any degree of
12 certainty that ProteoTech has not presented a "plausible" basis for finding Rexall had the
13 requisite intent for an infringement by inducement claim.

14 The TorPharm case is even further off point. In that case, the plaintiff TorPharm Inc.
15 ("TorPharm") had sued Novopharm, Ltd. ("Novopharm") for infringement of TorPharm's patent
16 for the drug ranitidine hydrochloride (the generic name for Zantac), and it was seeking leave to
17 join as a defendant Genpharm Inc. ("Genpharm"). 48 U.S.P.Q.2d at 1472-73. Genpharm did
18 not manufacture or import ranitidine hydrochloride on behalf of Novopharm, and it did not
19 know the chemical properties of Novopharm's version or the manufacturing processes used by
20 Novopharm or its subsidiary, Granutec, Inc. Id. at 1472-73. The only connection between
21 Genpharm and Novopharm was apparently a negotiated waiver submitted by Genpharm to the
22 Food and Drug Administration ("FDA") pursuant to which the FDA approved Novopharm's
23 Abbreviated New Drug Application ("ANDA") despite Genpharm's statutory right to
24 exclusivity. Id. at 1472. A company may not market a generic drug without the FDA's approval
25 of its ANDA, and an award of exclusivity guarantees that the FDA will not grant approval of
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1 another company's ANDA for the same product until the statutory 180-day period expires. *Id.*

2 In denying TorPharm's motion for leave to amend its complaint, the District Court observed:

3 Genpharm only notified the FDA that it waived exclusivity as to Granutec. This
4 waiver of exclusivity itself did not allow Novopharm to enter the United States
5 ranitidine hydrochloride market because the FDA still had to approve Granutec's
6 ANDA. The removal of a regulatory barrier by Genpharm which permitted the
7 FDA to approve Novopharm's ANDA does not give rise to liability for
8 contributory infringement.

9 *Id.* at 1474. The District Court further held that TorPharm's motion for leave to amend its
10 complaint was futile because it did not allege facts necessary to show that Genpharm had the
11 requisite intent for infringement by inducement. *Id.* The proposed amended complaint did not
12 allege on Genpharm's part any knowledge of Novopharm's product or process, any control over
13 the manufacture, import, sale, or use of Novopharm's product, or any involvement with
14 Novopharm's conduct, other than compensation received in exchange for the waiver submitted
15 to the FDA. *Id.*

16 Like the *Hewlett-Packard* case, the *TorPharm* opinion concerns different facts and a
17 limited holding. Unlike the case before the Court, *TorPharm* did not involve a license or
18 sublicense, but rather a waiver of a statutory entitlement. The waiver did not ensure FDA
19 approval of the ANDA at issue, and it did not speak to the effect of any patent concerning
20 ranitidine hydrochloride. In addition, the *TorPharm* decision does not support Rexall's broadly
21 worded argument; at most, the case stands for the proposition that a complete absence of facts
22 demonstrating involvement on the part of the proposed defendant does not warrant joinder.
23 Here, in contrast, ProteoTech alleges that Rexall had a subsidiary relationship with the company
24 that through various acquisitions became part of the corporate entity now accused of infringing
25 the patent ProteoTech licensed to Rexall. The case now before the Court is simply not one in
26 which the alleged inducer had no connection to the alleged infringer, and Rexall's "mere
licensing" theory does not support dismissal of ProteoTech's claim of patent infringement.

1 Rexall also makes the more limited contention that because the '570 patent was not
2 issued until after the sublicense was granted to Unicity, Count II should be dismissed in part as
3 to the '570 patent. ProteoTech does not appear to contest this point. See Response at 3 n.2
4 (docket no. 70) ("ProteoTech does not dispute that it cannot assert a[n] inducement of
5 infringement claim against Rexall based on the '570 patent because that patent was issued after
6 the date of the Sublicense and termination of the License Agreement."). ProteoTech maintains,
7 however, that it can assert infringement by inducement as to the '994 patent, and Rexall does not
8 appear to disagree with ProteoTech's interpretation of the technology purportedly granted by the
9 sublicense to Unicity. The sublicense provides that the term "Licensed Technology" has the
10 same meaning ascribed by the license agreement between ProteoTech and Rexall. See
11 Technology Sublicense Agreement at ¶ 1.2, Exh. C to Motion to Dismiss (docket no. 66). The
12 "Licensed Technology" is therefore defined as

13 the subject matter within the claims of U.S. Patent Application serial number
14 09/079,829, entitled 'COMPOSITION AND METHODS FOR TREATING ALZHEIMER'S
15 DISEASE AND OTHER AMYLOIDOSES,' including PTI-00703 and also including
16 (i) **subsequently filed applications on the same subject matter** or on PTI-00703,
17 and (ii) all corresponding PCT and other foreign applications, and all divisions,
18 continuations, continuations-in-part thereof, together with all patents and reissues
19 issued thereon, but only as and to the extent that they relate to and may be used in
20 the Field.

21 License Agreement at ¶ 1.5, Exh. B to Motion to Dismiss (emphasis added). "Field" is defined
22 as "dietary supplement use for Alzheimer's disease and Type II diabetes." Id. at ¶ 1.3. Patent
23 Application serial number 09/079,829 matured into the '570 patent. Amended Complaint at
24 ¶ 18. According to ProteoTech, the '994 patent ripened from a subsequently filed application on
25 the same subject matter. Response at 3 n.2. Rexall has provided no argument to the contrary.
26 Therefore, the Court DENIES Rexall's motion to dismiss Count II, but LIMITS the claim to the
'994 patent.

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1 **C. Trademark Infringement**

2 ProteoTech alleges that Unicity has used and continues to use the trademark “PTI-00703”
 3 to market its products and that Unicity is not authorized to do so via “license or otherwise.”
 4 Amended Complaint at ¶ 29 (docket no. 51). Rexall contends that, because the sublicense did
 5 not grant Unicity any rights to use the mark “PTI-00703,” it cannot be held liable for
 6 contributory trademark infringement. Rexall relies on the following provision of the sublicense:

7 Nothing contained in this Agreement shall be construed as . . . conferring any
 8 license or right with respect to any trademark, trade or brand name, or corporate
 9 name of either party or Licensor, or any other name or mark, or contraction,
 10 abbreviation or simulation thereof

11 Technology Sublicense Agreement at ¶ 5.3.3, Exh. C to Motion to Dismiss (docket no. 66). The
 12 term “Licensor” refers to ProteoTech. *Id.* at Preamble. In response, ProteoTech explains that it
 13 is not relying on the sublicense as evidence of Rexall’s wrongdoing, but rather on the chain of
 14 events pursuant to which Unicity continued marketing its product with the brand “PTI-00703.”
 15 ProteoTech alleges that “Rexall knew or should have known that Unicity was using the PTI-
 16 00703 mark” and “granted Unicity an implied license to continue advertising and promoting
 17 sales of the Infringing Products through use of the PTI-00703 mark.” Amended Complaint at
 18 ¶ 30. Although the details are sparse, ProteoTech appears to have alleged sufficient facts to
 19 present a plausible claim of contributory trademark infringement, which requires proof that the
 20 defendant “‘intentionally induced’ the primary infringer to infringe,” *Perfect 10, Inc. v. Visa*
 21 *Internat’l Serv. Ass’n*, 494 F.3d 788, 807 (9th Cir. 2007), and the Court DENIES Rexall’s
 22 motion to dismiss Count IV.

23 **D. Indemnification**

24 Rexall moves to dismiss ProteoTech’s claim for indemnification on two grounds: (i) the
 25 license agreement does not require Rexall to indemnify ProteoTech as to an action ProteoTech
 26 filed; and (ii) the license agreement requires arbitration of all disputes other than those related to
 the enforcement of intellectual property rights. Rexall relies on the following provisions of the

1 parties' agreement:

2 Rexall agrees to defend, indemnify and hold ProteoTech, its officers, founders,
3 directors, employees or agents harmless from and against any and all claims,
4 damages, expenses and losses (including reasonable attorneys' fees) or liability to
any third party resulting from any act or omission by Rexall relating to Rexall's
performance hereunder.

5 License Agreement at ¶ 6.2, Exh. B to Motion to Dismiss (docket no. 66).

6 All disputes arising out of or under this Agreement - other than disputes related to
7 the enforcement of its intellectual property rights by ProteoTech - shall be
submitted to binding arbitration by the American Arbitration Association (AAA) to
8 be heard in Palm Beach County, Florida if proceedings are initiated by ProteoTech
and King County, Washington if proceedings are initiated by Rexall, under the
rules then in force.

9 *Id.* at ¶ 12.4. The License Agreement is governed by Florida law. *Id.* at ¶¶ 12.2 & 14.

10 Rexall construes the agreement as calling for indemnification only with respect to the
11 claims of third parties. ProteoTech argues that the indemnification clause governs any and all
12 claims resulting from Rexall's acts or omissions or liability to third parties. ProteoTech also
13 contends that, to the extent the agreement is ambiguous, interpretation is an issue for the jury.
14 ProteoTech's reading of the indemnification provision, however, is simply unreasonable. "A
15 contract for indemnity is an agreement by which the promisor agrees to protect the promisee
16 against loss or damages by reason of liability to a third party." *Dade County Sch. Bd. v. Radio*
17 *Station WQBA*, 731 So.2d 638, 643 (Fla. 1999). ProteoTech's interpretation would transform
18 the indemnification clause into a blank check to sue and collect attorneys' fees, and the Court
19 rejects ProteoTech's argument. *See Florida State Bd. of Admin. v. Law Eng'g & Envtl. Serv.,*
20 *Inc.*, 262 F. Supp. 2d 1004, 1021 (D. Minn. 2003) (applying Florida law to grant summary
21 judgment against plaintiff's claim for indemnification "because plaintiff does not allege that a
22 third party has asserted a claim against it"). The Court concludes that the indemnification
23 provision at issue is unambiguous and is limited to claims or liability "to any third party."
24 Moreover, the Court is persuaded that any dispute concerning indemnification falls squarely
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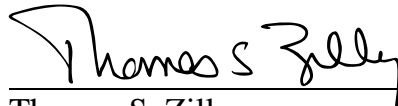
1 within the arbitration clause of the parties' agreement. Thus, the Court GRANTS Rexall's
2 motion to dismiss Count VIII.

3 **Conclusion**

4 For the foregoing reasons, Rexall's motion to dismiss is GRANTED IN PART and
5 DENIED IN PART. ProteoTech's claim for indemnification (Count VIII of the Amended
6 Complaint) is DISMISSED with prejudice, and ProteoTech's claim against Rexall for patent
7 infringement (Count II of the Amended Complaint) is LIMITED to actions related to United
8 States Patent No. 6,264,994. In all other respects, Rexall's motion is DENIED.

9 IT IS SO ORDERED.

10 DATED this 27th day of February, 2008.

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13 Thomas S. Zilly
14 United States District Judge
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